

MUNICIPAL FINANCE AND PLANNING

2020 Urban Learning Brief for Mission Staff



This Urban Learning Brief was written to inform USAID Mission staff about trends and developments in urban programming and is now being distributed to a wider audience. The content of this brief is based on learning from the 2020 World Urban Forum (WUF). WUF is a biennial meeting of UN Habitat focused on city-action for the 2030 sustainable development goals (SDGs).

The world is increasingly turning to cities for solutions to pressing development challenges, like poverty, unemployment, access to basic services, and even climate change. These expectations effectively increase cities' responsibilities. But this increase in responsibility is often not accompanied by the financial resources to meet them, even in countries that have implemented decentralization reforms. While cities naturally rely on fiscal transfers from the national government, which can be unreliable due to global economic trends as well as domestic political economy issues.

Consequently, **cities around the world struggle to invest in critical infrastructure and deliver services to accommodate their fast-growing populations.**

Municipal governments and other subnational entities must **improve their revenue generation and financial management** in order to address urban challenges of the 21st century. Without adequate resources, cities risk becoming centers of poverty, inequality, and environmental degradation—as opposed to centers of economic opportunity and social change.

There is an emerging opportunity to tap into cities' potential to **leverage capital to finance infrastructure projects and basic services.** Improvements in municipal finance capacity encompasses taxation, application of innovative finance tools, improving municipal debt capacity and leverage of private investment, among others.

KEY QUESTIONS TO CONSIDER

1. What is the current and projected gap between budget capacity and demand for services, infrastructure, social programs and other components of a local budget in the municipalities you are working with?
2. How does the policy and regulatory environment in the country shape the city's ability to establish sustainable municipal finance? For example, what is the delegation of authority to local or regional governments to raise revenue locally?
3. What challenges do cities encounter when mobilizing local resources and implementing financial management platforms? What are promising pathways for cities to explore to improve own-source revenue in their context?
4. What are complimentary sectors or development outcomes that would be bolstered by improved municipal finance and planning?

HEADLINES FROM THE WORLD URBAN FORUM 2020

Cities and communities around the world lack investment in basic infrastructure, social services, and other core local government functions. In order to achieve the ambitious goals outlined in the SDGs by 2030, developing countries will need an estimated \$USD 2.5-3 trillion more investment per year. In fact, cities likely to experience the most rapid growth in urban population and demand for services have the least financial resources per capita. Cities will need to tap into public and private financing options to fill the resource gap.

Local planning processes can be better attuned to the needs and interests of a place. City leaders can engage the local community to better understand development priorities and the associated financial resource needs. Cities can create innovative partnerships with civil society, private sector, and academia to pursue new solutions to deliver services. This would enable cities to step into their roles as innovators and implementers of the UN New Urban Agenda.

As domestic resource mobilization efforts are focused on the national level, cities lack capacity and tools for creative financing. Capacity to collect revenue locally is very uneven, and many cities remain reliant on transfers from national government. Further, cities do not have access to financial capital markets in much of the world.

There are many efforts targeted at building city-level capacity for own-source revenue and access to capital investment. Various multilateral and UN agencies work on this issue and several new capital investment facilities with focus on bankable projects for SDGs and climate mitigation and adaptation were announced at WUF. Additionally, new innovations in land-based financing tools can help local governments recover value for investment in public goods. For these efforts, stakeholders reflected on the need to balance global efforts and tools with local context.

“A core challenge is balancing the fiscal and equity concerns, ensuring that the benefits of growth are available for everyone, and doing so in both short and long term.”

- Robin King, World Resource Institute, February 2020

RESOURCES

Strategy for Financing the 2030 Agenda (2018),
United Nations Secretary General

Outlines three areas for action for UN system to accelerate investment through aligning systems, enhancing sustainable finance strategies at regional and country level and supporting innovation.

<https://www.un.org/sustainabledevelopment/sg-finance-strategy/>

International Municipal Investment Fund Technical Assistance Facility

United National Capital Development Fund (UNCDF)

A new fund designed and set up by UNCDF and United Cities and Local Governments (UCLG) with the collaboration of Global Fund for Cities Development (FMDV) to support cities and local governments in accessing national and international capital markets.

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Urban and Municipal Development Fund

African Development Bank

Multi-donor trust fund established 2019 to scale up interventions in urban development and drive sustainable growth in cities across the African continent

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Land Value Capture Compendium Initiative

Organisation for Economic Co-operation and Development (OECD) and Lincoln Institute of Land Policy

Effort to investigate and gain a better understanding of how land value capture is used around the world, with a focus on aspects that are important for systematic adoption. This research will result in a Global Compendium on Land Value Capture, covering both OECD and non-OECD countries.

<https://www.oecd.org/cfe/cities/land-value-capture.htm>

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Urban Land Value Capture in São Paulo, Addis Ababa, and Hyderabad (2020),

World Resource Institute

Analysis of the fiscal and equity impacts of urban land value capture instruments based on three case studies from the global south.

<https://www.lincolninst.edu/publications/working-papers/urban-land-value-capture-sao-paulo-addis-ababa-hyderabad>

MOVING THE NEEDLE IN YOUR MISSION

Diagnose the Issue

Staff should identify which issue(s) they would like to address. These can include revenue generation, taxation, or having sufficient financial resources to meet the demands for urban services. Once ideas are identified, staff should meet with Democracy and Governance staff and other sectors that may be interested, such as Economic Policy, to create a broad coalition of stakeholders that can help incorporate this issue into existing frameworks, initiatives, and investments. This coalition of staff should also reach out to government counterparts like Ministries of Finance, Development, Housing, Economic Development, and/or Commerce to ensure that assistance is needed and wanted.

Understand the Policy and Regulatory Environments

The next step is to assess the existing regulatory and policy frameworks to understand the capacity and organizing principles that guide taxation, revenue generation, and fiscal outlays that support urban services. Things to consider include how a city provides electricity to its residents, if there is running water available for informal settlements, if city residents are taxed based on property ownership, and any information about formal tax systems. These assessments can be done through a Political Economy Analysis, stakeholder mapping, or meetings with the officials identified.

Contact the Agency's Urban Team

The next step is to reach out to USAID's Urban Team by emailing urban@usaid.gov to request consultation or an assessment that can lead to the development of options for addressing municipal finance. The Urban Team will coordinate and consult with other relevant technical and regional bureaus within USAID and facilitate a conversation with the Mission that will lead to a tailored plan of action.

USAID Municipal Finance and Planning Resources

Making Cities Work Assessment and Implementation Toolkit: Municipal Finance The toolkit includes assessment methodologies, implementation toolkits, and other resources for managing municipal service delivery, municipal financial services, and local economic development. This toolkit helps Missions determine their capacity to address key finance issues relevant to the countries they serve.

<https://urban-links.org/resource/making-cities-work-assessment-and-implementation-toolkit-municipal-finance/>

Domestic Resource Mobilization (DRM) is the process through which countries raise and spend their own funds to provide for their people. It is the long-term path to sustainable development finance. DRM not only provides governments with the funds needed to alleviate poverty and deliver public services but is also a critical step on the path out of dependence on foreign aid.

<https://www.usaid.gov/what-we-do/economic-growth-and-trade/domestic-resource-mobilization>

For more information about urban programming at USAID:

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